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## Outsourcing Human Resource Functions and Organizational Performance: A Study of Some Selected Commercial Banks in Nigeria

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### **Abstract:**

*Through this study, the effects of outsourcing training and development programs and the recruitment process on organizational performance were assessed. The study employed a survey research design with a created and validated questionnaire. Members of the HRM Department from these selected commercial banks who made up the study's overall population size of 100 were the respondents. A sample size of 80 was chosen using Taro Yamane's sampling formula. With the use of SPSS and a linear regression model, the gathered data were evaluated. The study's findings revealed a substantial association of (0.940 and 0.815, respectively) between the characteristics of outsourcing human functions and organizational performance. The study came to the conclusion that outsourcing human resource functions such as the recruitment process and training and development has a significant impact on organizational performance. In accordance with the findings of the study, it was recommended that human resource managers spell out the job descriptions of the applicants in the portfolio that will be given to these outsourcing firms to enable them to perform better in the search for these candidates.*

**Keywords:** Outsourcing human resource functions, recruitment process, training and development activities, organizational performance, banks

### **1. Introduction**

Outsourcing has been one of the commonly accepted organizational techniques for providing excellent services to clients in both corporate and private entities due to the advent of globalization. Making the decision to assign some of your company's tasks to a third party might be difficult, but it can also be advantageous for the organization. In fact, a lot of businesses outsource at least one aspect of human resources. An outsourcing strategy has immeasurable benefits. These consist of cutting costs, improving service delivery, responding quickly, and having good feedback methods for customers (Anthi & Nikolaos, 2014). Typically, outsourcing is done with the goal of increasing productivity and lowering costs for the business. It appears that during the past few years, outsourcing human resource functions has taken center stage in many firms. Human resources are a company's representation of its workforce, employees, or people (the human element). It can also refer to a division within the business that is in charge of finding, luring, vetting, employing, and training job candidates, as well as overseeing the company's employee benefit plans (Kenton, 2020). The process of outsourcing human resources allows a corporation to concentrate on its core capabilities by handing off its HR responsibilities to another company. The time-consuming and complex nature of HR responsibilities makes it challenging to manage crucial areas (Ganta, Prasad & Manukonda, 2017). As a result, the procedure entails the procurement of human resources by a third party on behalf of another company (Biswas, 2020). It refers to the action of enlisting external or outside organizations to obtain the legal authority to take on the duties of managing another organization's human resources department. This proves that company A has employed company B to handle its human resources on its behalf. The use of this method, according to Biswas (2020), is intended to lower operational expenses, boost cost-effectiveness, and boost the recruiting and/or contracting company's productivity. Personnel management's function will include outsourcing for organizational growth, training, and recruitment (Brewster, 2017). Human resource management may decide to outsource certain tasks so that they can be completely effective and efficient, depending on the complexity of the operations within the firm. It requires evaluating several factors, including the examination of the expenses of subcontracting in relation to those developing internal personnel and the expected level of excellence that will be demonstrated by internal employees' knowledge. One area where management may handle human resources more effectively from the outset of the engagement of such personnel with the company is in the area of outsourcing recruitment. This will make it easier for management to choose the person who best fits the job description or defined roles (Certo, 2018). Employees' training is the next most important responsibility. This may involve hiring outside professionals to train the staff in their desired

positions. The functions could be determined by the defined job description or training that goes above and beyond the specifications of the job description to prepare the employees for upcoming and more difficult duties. As the cornerstone of organizational performance, each of these functions in human resource management is equally crucial (Certo, 2018). The government provides a small amount of support to the private sector; it is up to them to use their resources wisely to achieve organizational goals (Butler & Callahan, 2014). Outsourcing personnel functions is one of the strategic tactics used in a market with intense competition. Businesses are better situated to focus on their limited resources by outsourcing some of their HR activities. For Nigerian financial organizations, especially commercial banks, the employment of outsourcing tactics has a substantial impact on organizational performance.

However, according to Gunasekaran and Ngai (2012), organizational performance describes an organization's ability to obtain a competitive edge while meeting the needs of stakeholders. In today's dynamic business world, businesses must enhance not just their operational performance but also their overall performance in terms of social, environmental, and economic factors (Zhu, Sarkis & Lai, 2013). The performance of the business has consistently been assessed via the prism of its operational effectiveness and financial earnings, despite the fact that the environment and society are becoming more significant (Fernando, Jasmi & Shaharudin, 2019). To adapt to this paradigm shift and offer a strong and alluring face to their customers in terms of service delivery, organizations have had to become more strategic and dynamic. The performance of the organization as a whole benefits from outsourcing particular personnel tasks. To be able to respond to market developments, the modern banking industry also places a high value on operational flexibility. Thus, this study tends to assess the effect of outsourcing human resource functions on the organizational performance of some selected commercial banks in Lagos State, Nigeria.

In recent years, as a means of improving organizational performance, organizations have sought to enhance focus on core competencies, reduce costs, shorten production cycle times, improve service and product quality, and outsource a wide range of services, including human resource functions. Some commercial banks in Nigeria still struggle to accomplish their main objective of promoting balanced and complementary economic growth, despite the availability of contemporary technologies and ongoing investments in outsourcing. Most firms, particularly those in the banking sector, suffer from a lack of the best human resource functions to support their goals. A significant problem for this industry is the battle to maintain efficient outsourcing recruitment processes and training and development processes.

Broadly, the objective of the study is to examine the effect of outsourcing human resource functions on organizational performance in the Nigeria Banking Industry. In the same vein, the study seeks to achieve the following specific objectives:

- To ascertain the effect of the outsourcing recruitment process on organizational performance.
- To determine the effect of outsourcing training and development activities on organizational performance.

In light of the objectives raised above, the following hypothetical statements were synthesized:

- H<sub>01</sub>: Outsourcing the recruitment process does not have an effect on organizational performance.
- H<sub>02</sub>: Outsourcing training and development activities do not have an effect on organizational performance.

## 2. Literature Review

### 2.1. Outsourcing Human Resource Functions

After businesses managed the so-called "war for talent," outsourcing of human resources became quite common in the 1990s, mostly due to the shifting economic landscape (Adler, 2003). Managers have sought innovative methods to enhance their performance, increase and reinstate emphasis on their core business in the face of a fast-paced environment and the simultaneous collapse of multiple corporate sectors (Davidson, 2005). Businesses were under pressure to respond quickly to market shifts by swiftly raising and lowering personnel counts while cutting operating expenses (Armstrong, 2020). These businesses were dubbed "flexible" businesses. As outside sources provide goods and services more effectively and efficiently to suppliers, outsourcing has become an increasingly relevant corporate strategy and has produced a competitive advantage (McIvor, 2008; Yang, Kim, Nam & Min, 2007). Studies that have been released since 2000, such as those by McCracken and McIvor (2013), show that HRO has risen in all areas of HR function. A common reason for HRO is that it is intended to save money. Additionally, HRO has an effect on personnel roles and is connected due to the HR function's strategic integration, according to research and practice (Szierbowski-Seibel & Kabst, 2018).

### 2.2. Organizational Performance

Over time, the idea of performance has attracted a lot of interest in the field of human activity. The concept of organizational performance is wide and includes both the output of the corporation and the environments it engages in. In other words, organizational performance relates to how a firm accomplishes its goals, carries out its duties, and measures its success (Shin & Konrad, 2017). Performance can be challenging due to the numerous requirements that firms must satisfy, including sustainability, profitability, team cohesion, and a willingness to respond to environmental changes. Therefore, every firm should make high performance its default condition to thrive in a business climate that is rapidly changing (Taouab & Issor, 2019).

### 2.3. Outsourcing Human Resource Functions and Organizational Performance

According to a large body of anecdotal data, the employment of the outsourcing approach has had a significant impact on greater levels of performance (Gilley, Greer & Rasheed, 2004). This demonstrates that contracting out human resources tasks has favorable and long-lasting effects on performance relationships, leading to a successful conclusion in most instances. Jirawuttinont (2015) shows that contracting out manpower resource management functions like hiring, training, payroll, and HR information systems has improved the cost-effectiveness of personnel, the effectiveness of

personnel development, and the flexibility of human resources—all of which are signs of high organizational performance. By contracting out the non-essential/activities outside the scope of the organization, organizations can pay attention to the main HR functions of the firm. When a corporation lacks the expertise or resources to carry out a task or when doing so would be prohibitively expensive for the business, that action is deemed secondary. Therefore, these tasks must be outsourced to reduce the business's burden and free up more time and energy for other personnel tasks. Consequently, outsourcing has a favorable impact on organizational performance (Olannye & Okoro, 2017).

#### *2.4. Outsourcing Recruitment Process and Organizational Performance*

The term "Recruitment Process Outsourcing" (RPO) denotes the outsourcing of the staff recruitment and selection process. According to Human Resources Outsourcing Association (HROA), RPO is a sort of outsourcing of commercial processes when the management of the organization assigns the service provider responsibility for the hiring procedure. RPO used to be primarily seen as a service that assisted businesses in swiftly and affordably filling entry-level roles without consuming the time of the HR staff (Gale, 2016). Effective hiring has a variety of effects on the competitiveness and performance of the organization. Rising turnover rates can be seen as a result of outsourcing's increasing importance. One of the most lucrative industries in Nigeria, banking has had unparalleled prosperity throughout the years. To boost performance and profitability, they are utilizing novel manpower strategies like hiring through outside agencies (Mansen, 2009). To increase their output, impact, and capacity to create jobs, organizations that are dealing with increasing competition as a result of globalization outsource their recruitment functions (Corbett, 2004).

#### *2.5. Outsourcing Training and Development Activities and Organizational Performance*

The reassignment of management and execution of either both or any continuous training functions to a third-party service company is what is meant by outsourcing training and development activities. By raising employee knowledge levels and developing their skills, this process can give a sustained competitive edge to a business. As a result, your organization will stand out from the competition and rise to the top, thanks to the distinctiveness of the services provided by those skilled personnel. The goal of training and growing your personnel is to create and maintain the company's intellectual capital, which is the cornerstone of establishing a strong competency that will set you apart from competitors (Barney, 1991). According to Richman and Trondson (2004), as part of outsourcing training activities, the technologies and infrastructure for learning are also built up, the material is created, and administrative strategies are used to promote employee performance. As a result, training has been recognized as a key contributor to the success and performance of organizations. Although studies on the effects of training and general outsourcing on performance have been conducted, there are several ways that outsourcing may enhance the performance of a company. Cost savings is a significant potential outcome since outsourcing training offers a way to cut the fixed costs associated with maintaining a training team.

### **3. Theoretical Framework**

The study focuses on outsourcing human resources, which involves service providers (Agents) and principals (Firms) looking to optimally utilize resources (workers). These studies embraced the Resource-Based View, Transaction Cost Economies, and Agency Theory.

#### *3.1. Agency Theory*

According to Christen, Iyer, and Soberman (2006), agency theory has been used to study management decision-making and organizational performance (Fama, 1980; Jensen & Meckling, 1976). Agency theory can be useful in instances where one person, the principal, delegate work to the agent, who then completes the task (Eisenhardt, 1989). For our aims, the vendor or outsourcing provider is the agent and the outsourcing company is the principal. Although the analysis's units do not correspond to the typical owner-manager-employee connections seen in the literature, the conceptual framework is nevertheless followed (Milgrom & Roberts, 1992; Whitener, Brodt, Korsgaard & Werner, 1998). Agency issues can come from two different sources: those caused by asymmetric knowledge, such as moral hazard and adverse selection, and those caused by asymmetry in the goals of the client and the representative (goal conflict). Due to varying risk inclinations, goal conflict entails issues in which the principal and the agent share risk. In their contention that team production is a factor in the emergence of enterprises, Alchian and Demsetz (1972) addressed one challenge brought on by asymmetric knowledge (informational challenges of gauging team production effort).

#### *3.2. Transaction Cost Economies*

Coase (1937) bridged the theoretical chasm between the argument that resource distribution is subject to the entrepreneur and the presumption that resources are allocated based on the pricing mechanism. Outside the company, price changes control output, which is regulated by a number of exchanges on the market. These marketplace exchanges are abolished within a firm, and the production is now managed by an entrepreneur coordinator rather than a convoluted market organization involving trading activities (Coase, 1937). The line drawn separating hierarchy and market is fluid. This view accepts that there are expenses associated with creating, carrying out, maintaining, and upholding contracts. So long as the overall expenses (including transaction costs) are lower than what it would cost to get the market's responses to those actions, it makes sense for a company to grow by executing operations internally. The original TCE framework was built on the premise of perfect markets, but it has since been expanded to account for scenarios in which imperfect markets exist. Williamson (1975; 1985) considerably expanded the theory by arguing that imperfect contracts and connections to asymmetric knowledge and bounded rationality result in integration as opposed to market purchases.

### 3.3. Resource-Based View (RBV) Theory

The assets of the company are highlighted as the primary determinants of performance from the resource-based perspective. To explain the sources of competitive advantage, it adopts two presumptions (Barney, 1991; Peteraf & Barney, 2003). Initially, this model assumes that businesses inside an industry may differ in terms of the resources they manage. Second, it assumes that resource diversity might persist with time since not all of the resources utilized by corporations to carry out their plans may be sold on factor markets and some of them are difficult to amass and imitate. It is believed that resource heterogeneity is an essential prerequisite for a collection of resources to help create a competitive advantage. According to the argument made by Cool, Almeida and Dierickx (2002), a strategy that is available to one organization may not be equally available to all other organizations in the market if all businesses in a market have the same store of resources.

### 3.4. Empirical Review

Baraza, K'Obonyo and Omondi (2022) investigated the Effect of Human Resource Outsourcing on the Performance of Logistics Companies in Mombasa County, Kenya. To conduct the study, a descriptive cross-sectional survey research methodology was employed. Out of a total of 425 logistics organizations, 128 HR department heads representing those 128 companies were the respondents. Semi-structured surveys were sent to the respondents via email to get their responses. The Statistical Package for Social Sciences (SPSS) was used to examine the quantitative statistics using descriptive and inferential statistics. The evaluation used both correlation and regression analysis. According to the findings, payroll management, training and development, and recruitment and personnel all have a slight but beneficial impact on how well logistics firms operate in Mombasa County. The study demonstrated that outsourcing a number of human resource tasks would improve the organization's performance.

Akinyi, Mulili and Mwanzia (2022) examined the Analysis of the Impact of Human Resource Outsourcing on the Effectiveness of the Human Resource Function in Nairobi, Kenya. 259 IHRM-registered company HR departments made up the study's target group. The respondents, who are representatives of the HR department, were chosen via a non-probability purposive sampling technique with 72 organizations as its sample. Statistical Package for Social Sciences (SPSS), a computer software, was used to examine the data using both descriptive and inferential statistics. The results of the study demonstrated that outsourcing training and development and remuneration had a large and favorable impact on the efficiency of the HR role. Subcontracting recruiting did not, however, have a substantial impact on the HR function's effectiveness. Additionally, the vendor characteristics influence the relationships between recruitment outsourcing and the HR function's effectiveness ( $=.31, .05$ ), training outsourcing and the HR function's effectiveness ( $=.550, .05$ ), and compensation outsourcing and the HR function's effectiveness ( $=.419, .05$ ). The study concludes that outsourcing operations for training and development and pay are essential for enhancing the HR function's effectiveness. The study advises businesses to conduct a comprehensive cost-benefit analysis before subcontracting recruitment because the impact was negligible.

Imuetinyan (2021) investigated Human Resources Outsourcing and Organizational Performance of Manufacturing Firms in Delta State, Nigeria. A cross-sectional survey study approach was performed with a population of 120 owner-managers, managers, and supervisors of manufacturing firms in Delta State. Using SPSS version 21, four (4) null hypotheses were created and assessed using the Spearman Rank Order Correlation Coefficient. According to the discoveries, outsourcing the hiring process and training and development has an effect on the success of the business (growth and client satisfaction). To reduce money and give managers more time to plan successfully, the study advised, among other things, that manufacturing firms subcontract their recruitment, training, and development to an agency.

## 4. Methodology

Survey research was used as the methodology for this study. The reason for choosing this type of design is that it enables the researcher to gather data on the subject from chosen participants, who can provide greater insight into the matter.

### 4.1. Scope of the Study

This study's scope focuses on outsourcing human resource functions and organizational performance in Nigeria Banking Industry with special attention to Access/Diamond Bank, GT Bank, First Bank, Union Bank and Fidelity Bank Head Offices in Lagos State, Nigeria. The population of this study is members of the HR department of the selected banks. However, the researchers chose randomly and arrived at 80 as the sample size.

### 4.2. Research Instrument

A structured questionnaire served as the study's primary research instrument. The questionnaire has two components, A and B. In Section A, only bio-data about the respondents was collected, while in Section B, the variables of the study were considered.

### 4.3. Validity and Reliability

The reliability of tools was tested on the effect of outsourcing human resource functions on organizational performance using Cronbach's alpha. According to the following table, Cronbach's alpha is equal to 0.88, indicating that the test is 88% reliable and, as a result, 12% unreliable ( $100\% - 88\% = 12\%$ ). The questionnaire is suitable for use in subsequent studies because of this.

#### 4.4. Presentation of Results

Cronbach's Alpha	No. of Items
0.88	15

Table 1: Reliability Statistic  
Source: Field Survey, May 2023

#### 4.5. Testing of Hypothesis

The set of assumptions was put to the test using an analysis of regression. The dependent variable was organizational performance, and the independent variables were outsourcing human resource functions, including the recruitment process and training and development activities.

Where:

- ORP rep Outsourcing Recruitment Process
- OTDA rep Outsourcing Training and Development Activities
- OP rep Organizational Performance

##### 4.5.1. Hypothesis One

- H<sub>01</sub>: Outsourcing recruitment process has no significant effect on organizational performance.

R	R Square	Adjusted R Square	Std. Error of the Estimate
.970 <sup>a</sup>	.940	.940	.53397

Table 2: Model Summary  
a. Predictors: (Constant), ORP

The Model Summary result in table 2 illustrates how Access/Diamond Bank, GT Bank, First Bank, Union Bank and Fidelity Bank Head Offices in Lagos State, Nigeria organizational performance are affected by outsourcing recruitment processes. The organizational performance of Access/Diamond Bank, GT Bank, First Bank, Union Bank and Fidelity Bank Head Offices in Lagos State, Nigeria, are highly positively associated, as seen by the correlation coefficient of 0.97. Approximately 94 percent of changes in organizational performance may be attributed to the outsourcing recruiting process, which has an R-squared value of 0.940 and an adjusted R-squared value of 0.940.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8748.272	1	8748.272	1678.090	.000 <sup>b</sup>
	Residual	1991.455	78	5.213		
	Total	10739.727	79			

Table 3: ANOVA<sup>a</sup>  
a. Dependent Variable: OP  
b. Predictors (Constant), ORP

On the other hand, the ANOVA table result in table 3 assesses the test for the null hypothesis and whether it is statistically significant. If the P value is less than 0.05, the null hypothesis is rejected. The null hypothesis should be true because the model in this table is statistically significant (sig=.000) and, therefore, should be disproved and the alternative hypothesis should be accepted. This implies that outsourcing the recruitment process has a significant impact on organizational performance.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.776	.151		5.128	.000
	ORP	.557	.012	.970	47.161	.000

Table 4: Coefficients<sup>a</sup>  
a. Dependent Variable: OP

Table 4 shows another example of how the model's variables are used to forecast the dependent variable's actions. It was noted from the table that outsourcing the recruitment process significantly impacts organizational performance. Given the aforementioned factors, the standardized coefficient of 0.970 demonstrates that outsourcing the recruitment process has a sizable impact on organizational performance. According to the data, Access/Diamond Bank, GT Bank, First Bank, Union Bank and Fidelity Bank Head Offices in Lagos State, Nigeria, experienced 97% changes in organizational performance for every standard deviation change in the outsourcing recruitment process. The findings brought about the conclusion that the outsourcing recruitment process has a substantial impact on organizational performance.

#### 4.5.2. Hypothesis Two

- H<sub>02</sub>: Outsourcing training and development activities has no significant effect on organizational performance.

R	R Square	Adjusted R Square	Std. Error of the Estimate
.903 <sup>a</sup>	.815	.814	2.28325

Table 5: Model Summary  
a. Predictors: (Constant), OTDA

The model Summary result from table 5 illustrates how training and development activities are outsourced and how it affects organizational performance at Access/Diamond Bank, GT Bank, First Bank, Union Bank and Fidelity Bank Head Offices in Lagos State, Nigeria. The organizational performance of Access/Diamond Bank, GT Bank, First Bank, Union Bank and Fidelity Bank Head Offices in Lagos State, Nigeria, is strongly positively correlated with outsourcing training and development activities, as indicated by the correlation value of 0.903. Approximately 81 percent of changes in organizational performance were attributable to outsourcing training and development activities, with an R-squared value of 0.815 and a corrected R-squared value of 0.814, respectively.

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8748.272	1	8748.272	1678.090	.000 <sup>b</sup>
	Residual	1991.455	78	5.213		
	Total	10739.727	79			

Table 6: ANOVA<sup>a</sup>  
a. Dependent Variable: OP  
b. Predictors: (Constant), OTDA

The null hypothesis, however, is assessed to see if it is statistically significant in table 6's ANOVA table result. If the P-value is less than 0.05, the null hypothesis is disproved. The null hypothesis should be true because the model in this table is statistically significant (sig=.000) and disproved and the alternative hypothesis should be accepted. This shows that outsourcing activities for training and development have a big impact on organizational performance.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.341	.162		2.109	.000
	OTDA	.502	.013	.956	38.745	.000

Table 7: Coefficients<sup>a</sup>  
a. Dependent Variable: OP

Table 7 also demonstrates how the factors in the model predicted how the dependent variable would behave. It was seen from the table that outsourcing training and development operations have a substantial effect on organizational performance. For the aforementioned factors, the standardized coefficient of 0.956 indicates that outsourcing training and development operations have a sizable impact on organizational performance. According to this data, Access/Diamond Bank, GT Bank, First Bank, Union Bank and Fidelity Bank Head Offices in Lagos State, Nigeria, experienced 96% changes in organizational performance for every standard deviation that was changed in the outsourcing of training and development activities. The results led to the conclusion that outsourcing training and development activities have a substantial effect on organizational performance.

## 5. Conclusion and Recommendations

### 5.1. Conclusion

Organizations and the role of human resource tasks can have a significant effect on the attainment of organizational performance, which in turn attracts increasing attention from theorists and practitioners. Outsourcing is one tactic used by companies to bolster their core competencies and make efficient use of their resources. As globalization has grown, outsourcing has become among the most widely utilized corporate methods to give clients better services. The choice to outsource is not arbitrary, and managers typically choose to do so for one of the following six for the following factors:

- Lower costs,
- A strategic focus,
- Access to cutting-edge technology,
- Greater service standards,
- Availability of expertise, and
- Organizational policy.

According to published research, outsourcing HR operations plays a significant part in enhancing organizational performance, which can be measured in terms of productivity, profitability and cost-effectiveness.

## 5.2. Recommendations

This section provided some recommendations according to the study's results to boost organizational performance in Access/Diamond Bank, GT Bank, First Bank, Union Bank and Fidelity Bank Head Offices in Lagos State, Nigeria.

- Banks should consider outsourcing recruitment strategy because it allows the company to cut operating costs. This has the potential to keep the company operating.
- Human resource managers should ensure that candidates picked for the job by these outsourcing firms are well-qualified and skilled enough so that organizations can avoid off-the-job training completely.
- Bank should institutionalize top-notch learning programs to develop a workforce that is well competent to handle operational issues. This might make it easier for the company to continue operating.
- Human resource managers should spell out the job descriptions to the outsourcing firms to enable them to search specifically for applicants with such skills.

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